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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 27, 2002

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE-2002-00648

For Waiver of Gas Pipeline
Safety Requirements of 49 C.F.R.
Part 193

ORDER FOR NOTICE AND INVITING COMMENTS

The Accountable Pipeline Safety and Partnership Act of 1996, 49 U.S.C. § 60101 et seq., formerly the Natural Gas Pipeline Safety Act of 1968 ("Act"), requires the Secretary of Transportation ("Secretary") to establish minimum federal safety standards for the transportation of gas and pipeline facilities. The Secretary is further authorized to delegate that authority to prescribe safety standards and enforce compliance with such standards over gas pipelines facilities used for intrastate transportation to an appropriate state agency. The Virginia State Corporation Commission ("Commission") has been designated as the appropriate state agency for the Commonwealth of Virginia. In Case No. PUE-1989-00052, the Commission adopted Parts 191, 192, 193 and 199 of Title 49 of the Code of Federal Regulations to serve as minimum gas pipeline safety standards in Virginia.

On November 21, 2002, Virginia Natural Gas, Inc. ("VNG" or "Company") filed an application requesting a waiver for a period of three years, beginning with the winter of 2002-03, of certain gas pipeline safety standards found at 49 C.F.R. Part 193, which regulate Liquefied Natural Gas ("LNG") facilities. In particular, the Company requests a waiver of 49 C.F.R. §§ 193.2057 and 193.2059 for three years for the construction and operation of a temporary satellite Liquefied Natural Gas facility proposed to be located in Chesapeake, Virginia, on the property of VNG's Chesapeake propane plant.

On November 25, 2002, the Company supplemented its application providing additional details concerning this project. According to VNG's application, as supplemented, the proposed facility will consist of one 21,000 gallon, and one 28,000 gallon tank, along with vaporization equipment and truck unloading facilities located at VNG's propane plant in Chesapeake, Virginia. The plant will be constructed at or above grade and will consist of prefabricated skid mounts trucked in and set on above grade footings and cradles. The boiler, boil-off compressor, and motor control center will be in a prefabricated metal building set on an above grade foundation. According to the Company, all components of the plant will be connected by piping that runs in troughs constructed at grade level or above ground.

VNG's supplemental documents explains that the plant will be operated only during the winter months, during short periods of extremely high send-out. According to the Company, projected total use in any year would be ten days of service. During the off-season periods, the plant contents would be emptied so there would be no gas stored in the facility. VNG states that at the completion of the winter period of 2004-05, the plant would be dismantled, skids and associated equipment removed, and the plant site returned to original condition.

VNG alleges that a temporary LNG facility was determined to be the best solution to meet a temporary shortfall of supply capacity until an anticipated pipeline expansion is constructed. According to the Company, a temporary satellite LNG facility (storage and vaporization only, no liquefaction) provides the most economical solution to VNG's temporary shortfall of supply capacity since LNG is available and can be easily transported to this location for injection into the system when required. VNG also maintains that the elimination of the requirement for the liquefaction process and large amounts of on-site storage makes the temporary satellite LNG facility the prudent choice to satisfy the deliverability shortfall VNG faces.

VNG asserts that this facility will meet all Part 193 regulations with the exception of the "thermal exclusion zone"

(49 C.F.R. § 193.2057) and "flammable vapor-gas dispersion" distance (49 C.F.R. § 193.2059) required for on-site storage tanks (less than 70,000 gallons) under a permanent LNG facility. According to the Company's application, the current design for the project meets the "flammable vapor-gas dispersion" distance for a mobile and temporary LNG facility.

VNG represents that if its waiver is granted, the project will increase the reliability to VNG's customers by providing on-site storage as a backup to VNG's tanker operations for continuous sendout during peak demand. For this reason, VNG asserts, its request for waiver is in the public interest.

Now upon consideration of this matter, the Commission is of the opinion and finds that VNG's application should be docketed; that VNG shall provide notice to the public of its application for waiver; that the public should have an opportunity to comment and request a hearing on VNG's application; and that Commission Staff should file a report on the reasonableness of VNG's application.

Accordingly, IT IS ORDERED THAT:

(1) The captioned matter is hereby docketed and assigned Case No. PUE-2002-00648.

(2) A copy of the application for waiver and supporting materials, as well as any other document now or hereafter filed in this matter, shall be made available for public

review from 8:15 a.m. to 5:00 p.m., Monday through Friday, at the Commission's Document Control Center located in the Tyler Building, 1300 East Main Street, First Floor, Richmond, Virginia 23219.

(3) Within three (3) days of receipt of a written request for a copy of its application for waiver, VNG shall serve upon any interested person making a written request a copy of the application for waiver, a copy of this Order, and all relevant materials now or here after filed with the Commission. Requests for copies of VNG's application for waiver shall make reference to Case No. PUE-2002-00648, and shall be served upon VNG. Service upon VNG shall be directed to VNG's counsel: Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030.

(4) Any interested party who wishes to comment on VNG's application for waiver shall file on or before December 20, 2002, an original and fifteen (15) copies of his written comments with Joel H. Peck, Clerk of the State Corporation Commission, c/o Document Control Center, Post Office Box 2118, Richmond, Virginia 23218, referring to Case No. PUE-2002-00648, and shall serve a copy upon VNG's counsel at the address set forth above.

(5) On or before December 20, 2002, any interested person desiring a hearing in this matter shall file an original and fifteen (15) copies of a request for a hearing in writing with the Clerk of the Commission at the address set out above, referring to Case No. PUE-2002-00648, and shall serve a copy of his request upon counsel for VNG at the address set forth above. Any request for hearing shall state why the issues raised in the request for hearing cannot be adequately addressed in written comments. If no sufficient request for hearing is received, the Commission may consider VNG's request for approval of its waiver based upon the papers filed herein without convening a hearing at which oral testimony is received.

(6) On or before December 20, 2002, persons who file a request for hearing and expect to participate as a respondent, should a hearing be scheduled in the matter, shall also file an original and fifteen (15) copies of a notice of participation as required by Rule 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedural ("Rules"). All notices of participation shall be served on or before December 20, 2002, on the Company's counsel at the address set forth above.

(7) On or before December 10, 2002, VNG shall complete the publication of the following notice, to be published once

as display advertising (not classified) in major newspapers of general circulation in the areas of the Commonwealth of Virginia affected by the waiver requested by the Company:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
VIRGINIA NATURAL GAS, INC., FOR WAIVER OF
GAS PIPELINE SAFETY STANDARDS
CASE NO. PUE-2002-000648

On November 21, 2002, Virginia Natural Gas, Inc. ("VNG" or "Company") filed an application with the State Corporation Commission ("Commission") requesting a waiver of certain parts of the Gas Pipeline Safety Standards found at 49 C.F.R. Part 193 which regulate Liquefied Natural Gas ("LNG") facilities. In particular, the Company requests a waiver of 49 C.F.R. §§ 193.2057 and 193.2059 addressing the construction and operation of a temporary satellite Liquefied Natural Gas facility proposed to be located in Chesapeake, Virginia, to meet customer demand for cold weather conditions during the next three winter seasons. Pipeline Safety Standards 49 C.F.R. §§ 193.2057 and 193.2059 address thermal exclusion and the flammable vapor-gas dispersion distance requirements required for on-site storage tanks (less than 70,000 gallons) under a permanent LNG facility. VNG alleges that the current design for this facility meets the "flammable vapor-gas dispersion distance for a mobile and temporary LNG facility." The Company requests a waiver of the thermal exclusion and flammable vapor-gas dispersion distance requirements under 49 C.F.R. §§ 193.2057 and 193.2059 for the facility due to the temporary nature of the satellite LNG facility.

Copies of VNG's application and supporting materials are available for public inspection from 8:15 a.m. to 5:00 p.m., Monday through Friday, at the State Corporation Commission's Document Control

Center, located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia 23219.

Within three (3) days of the receipt of a written request for a copy of its application for waiver, VNG shall serve upon any interested person making such a request a copy of its application for waiver, a copy of the Commission's Order for Notice and Inviting Comments, and all relevant materials now and hereafter filed with the Commission. Requests for copies of VNG's application for waiver shall be served upon VNG's counsel at the following address: Edward L. Flippen, Esquire, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030.

Any interested person who wishes to file comments or request a hearing on the application for waiver shall file an original and fifteen (15) copies of his request or comments with the Clerk of the Commission at the address set forth below, in writing on or before December 20, 2002, referring to Case No. PUE-2002-00648, and shall also serve a copy of said comments or request upon counsel for VNG at the address set forth above. Any request for hearing shall state why the issues raised by the request cannot be addressed in written comments. If no sufficient request for hearing is received, the Commission may consider VNG's application based upon the papers filed herein without convening a hearing at which oral testimony is received.

On or before December 20, 2002, interested persons who file a request for hearing and expect to participate as a respondent should a hearing be scheduled in this matter, shall also file with the Clerk of the Commission at the address set forth below an original and fifteen (15) copies of a notice of participation as required by

Rule 5 VAC 5-20-80 B of the Commission's Rules of Practice and Procedure and shall serve a copy of the same upon counsel for VNG at the address set out herein.

All written communications to the Commission regarding this proceeding shall refer to Case No. PUE-2002-00648 and shall be directed to: Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, Post Office Box 2118, Richmond, Virginia 23218.

Official copies of the Commission's Order for Notice and Inviting Comments may be obtained from the Clerk of the Commission at the address set forth above. The unofficial text of the Commission's Order for Notice and Inviting Comments, the Commission's Rules of Practice and Procedure, as well as other information concerning the Commission and the statutes it administers, may be reviewed on the Commission's website <http://www.state.va.us/scc/index.htm>.

VIRGINIA NATURAL GAS, INC.

(8) On or before December 10, 2002, VNG shall serve a copy of this Order on the Chairman of the Board of Supervisors of each county and upon the Mayor or Manager of every City or Town; or equivalent officials in counties, towns and cities having alternate forms of government within the Commonwealth in areas affected by VNG's requested waiver. Service shall be made by first class mail to the customary place of business or residence of the person served.

(9) On or before December 30, 2002, the Commission Staff shall investigate VNG's application and shall file with the Clerk of the Commission an original and twenty (20) copies of

a report, which may take the form of testimony, if appropriate, on the reasonableness of VNG's application for a waiver. A copy of the same shall be served upon counsel for the Company and upon the respondents in this matter.

(10) On or before January 10, 2003, VNG shall provide the Commission with proof of notice and service requested herein.